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II.

THE MYSTERIES OF AMERICAN RAILWAY ACCOUNTING.

It is now nearly twenty-nine years since the passage by the New York State Legislature, in April, 1850, of a general law relating to railroads. There were no giants in those days. Possibly, however, the far-seeing and remarkable man who originated the vast combinations which now control, to a great extent, the internal commerce of the country, was even then engaged upon those plans which resulted in the formation of what a public speaker in the recent political campaign in New York City characterized as the closest and wealthiest corporation in America. It is a significant fact that the occasion which called forth this remark was an effort to prevent the importation of the Forty-second Street influence into the City Hall, through the election to the mayoralty of a gentleman who has long been identified with the interests of the company alluded to. Every well-regulated State very properly undertakes to control many of its public corporations, so that, through a perfect knowledge of their financial condition, only to be ascertained through complete and enforced reports, the public at large may know to what extent it is safe to trust their promises to pay, losses, interest, or dividends, as the case may be.

The purpose of this paper is to invite attention to the laws of New York, which, as they now stand, render possible, either the rendering of no account whatever of their financial condition, by companies whose stocks may constitute the sole means of subsistence of otherwise helpless families, or the publishing of such statements, or reports, as are a mockery of the law, and an insult to the common sense of every business man.

The New York Central and Hudson River Railroad Company is

the most prominent and important of all the railroad corporations of the United States. Upon its honest and successful administration depends the welfare of a greater number of our people than upon any other enterprise or investment of capital in the United States. Because it is the most prominent and apparently the most successful of this class of corporations, and because it appears to furnish an illustration of the existence of such laws, a brief review of its history and practices is here proposed. There are other corporations, almost equally important, which will have attention in the future.

For some ten years past, no perfect "general balance-sheet" has been published by the company ; and it is not a little singular that this circumstance, instead of awakening the suspicions of brokers and investors, seems to have been entirely ignored. The market price of the stock has been governed by the fact that it has paid eight per cent. dividends, regardless of the absence of any proof of its intrinsic value, as indicated by the existence of a due proportion of assets to liabilities. There has been, to be sure, given to the public every year, through Poor's "Railroad Manual," a statement purporting to show the financial *status* of the concern, but this exhibit will be demonstrated to be untrue and impossible on its face. The Lake Shore and Michigan Southern Company, which is under the same direction, furnishes annually, if not the very best, certainly one of the best reports in the country, a document that any management may well be proud of. Why, then, it may not unreasonably be asked, if the New York Central has nothing to conceal, does it not give an equally explicit statement ? The reputation of the stock, acquired by its continual payment of eight per cent. dividends, and the knowledge by the direction that it is widely known and constantly quoted as an investment stock, would seem to make it the imperative duty of the company to publish such full particulars of its condition as shall leave no doubt of the actual value of the stock in the minds of trustees and others seeking a safe investment.

The history of the enterprise, for the purposes of this article, dates back to 1853. In that year the energetic founders succeeded in consummating their great scheme of consolidating eleven different companies operating in the State of New York between Albany on the Hudson River and Lake Erie, the stocks and convertible bonds of which amounted, as will be seen from the following figures, to \$23,235,600 :

Rochester and Lake Ontario.....	\$150,000
Syracuse and Utica Direct.....	600,000
Schenectady and Troy.....	650,000
Buffalo and Lockport.....	675,000
Mohawk Valley.....	1,575,000
Albany and Schenectady.....	1,621,800
Rochester, Lockport and Niagara Falls.....	2,155,100
Syracuse and Utica.....	2,700,000
Buffalo and Rochester.....	8,000,000
Utica and Schenectady.....	4,500,000
Rochester and Syracuse.....	5,608,700
	<hr/>
	\$23,235,600

For this amount, stock in the new corporation was exchanged, it has been stated, to the extent of \$24,000,000. The various companies had enjoyed different degrees of prosperity, and their stocks, consequently, bore different values. In the settlement, a computation of these values was made, and the difference settled by issuing bonds of the Central to the various stockholders, payable in thirty years—that is, in 1883—with interest at six per cent. These bonds were denominated “debt certificates (future income),” amounted to \$8,894,560, and were provided for by a sinking fund of one and a quarter per cent., say \$111,182, payable annually out of the future income of the road. The attention of the reader is specially called to these details, as in them may be found the first evidence of questionable statements put forth by the company. The business of the new line continued to increase, being of course greatly augmented by the war of 1861-’65, down to the year 1869, when a new and further consolidation was effected by uniting the Central with the Hudson River road, thus forming the present company. The last regular balance-sheet of the New York Central Company published in Poor’s “Railroad Manual” was for the year 1868, and may be found on pages 204, 205, of that work for 1869-’70. It is here reproduced for examination :

Construction account.....	\$36,607,697
Cash.....	2,372,855
Buffalo and State Line Railroad stock.....	816,687
Troy Union Railroad stock.....	89,350
Hudson River Bridge stock.....	467,500
Erie and Pittsburg Railroad bonds.....	212,971
Debt certificates (future income).....	6,023,689
Fuel and supplies.....	759,776
Bills receivable.....	519,053
General Post-Office.....	34,936
Real estate.....	32,500
	<hr/>
	\$47,937,014

Capital stock.....	\$28,780,000
Funded debt.....	11,458,904
Unclaimed dividends.....	5,777
Expenses (paid in October).....	688,553
Interest accrued.....	301,072
United States tax account.....	71,795
Income balance.....	6,630,913
	<hr/>
	\$47,937,014

For the information of persons who may not be familiar with book-keeping, it may be pointed out that the two statements balance, that is, they equal each other in amount. The first represents the assets, and the second the liabilities of the company. In the latter will be found the item "income balance, \$6,630,913," which, not being in the nature of a liability or debt, purports to be the excess of the assets over the liabilities. In other words, it purports to show that, if the company had at that date converted its assets into cash, and therewith paid off all its liabilities, it would have had remaining in its possession a surplus of \$6,630,913. But to produce this result it is necessary that the items found in the list of assets shall be veritable assets. On examining the list we find in it the item of "debt certificates (future income), \$6,023,689," being the alleged unpaid balance of the \$8,894,560, issued in 1853, the remainder having been converted, or paid by the sinking fund created for that purpose. As these are not assets, they must be deducted from the list—the result being that the company, instead of having on hand at that date a surplus of \$6,630,913, had really only \$607,224. In plain terms, the statement represents the condition of the company as being better than it actually was by \$6,023,689. To make this plain to the dullest comprehension, the following figures are presented :

Amount of assets as per statement.....	\$47,937,014
Deduct item of debt certificates, as not being an asset.....	6,023,689
	<hr/>
	\$41,913,325
	<hr/>
Amount of liabilities as per statement.....	\$47,937,014
Deduct item of income balance, as not being a liability.....	6,630,913
	<hr/>
	\$41,306,101
Income balance (synonymous with surplus, or profit and loss).....	607,224
	<hr/>
	\$41,913,325

To the professional book-keeper, it is only necessary to say that the original sum of \$8,894,560, for which bonds were issued, being

an expense or loss incurred by the company in effecting the consolidation, should have been charged at the time of the transaction to profit and loss account, and afterward closed into income balance account. The stock sold in December, 1868, at 159. As the company in that year paid only seven per cent. dividend, there could have been no reason for the stock ruling so high in the market except the belief on the part of the public that the statement regarding its financial condition was true. From this time forward the plot thickens. In this year (1868) the famous scrip dividend of eighty per cent., convertible into stock, was declared, and in the following year the consolidation with the Hudson River road was carried into effect. The result of these two operations may be learned from the following figures :

Original capital of the two roads.....	\$44,815,800
Present capital.....	89,428,300
Increase.....	<u>\$44,612,500</u>

This increase appears to be just so much money made to the stockholders out of nothing. In these transactions may be found the explanation of the present attitude of the company toward the city of New York. There can now be little question that they represent the hugest financial blunder of the age. But, although the stockholders may be said to have made this large amount without giving an equivalent therefor, it is certain that some other parties must in some way or other pay it to them, and that these other parties are the public at large. The capital once doubled, if the value of the stock were to be maintained, regular dividends must be declared, and this could only be done by means of doubled business or increased rates of freight to be paid by the public, or, if needful, by a combination of both expedients. To increase the difficulty of the situation, the enormous impulse given by the war to the traffic of the country had begun to subside. The railroad interest was among the first to feel this. The New York Central continued to meet its regular payments up to 1871, but in the succeeding year its earnings seem to have been insufficient to provide for the sinking-fund demand of \$111,182. This payment was passed in 1872, and has never been made since. The following statement, compiled from the annual reports to the State Engineer and Surveyor, shows that in the last six years the earnings of the company have fallen short of the amount required to meet the sinking fund by \$436,102.21 :

Earnings in 1872.....	\$25,580,675 87	Balance.
Payments, except to sinking fund.....	25,565,873 23	\$14,802 64
Earnings in 1873.....	\$29,126,851 17	
Payments, except to sinking fund.....	29,105,330 77	21,520 40
Earnings in 1874.....	\$31,650,386 72	
Payments, except to sinking fund.....	31,534,471 16	115,915 56
Earnings in 1875.....	\$29,027,218 03	
Payments, except to sinking fund.....	28,824,702 33	202,515 70
Earnings in 1876.....	\$28,046,688 45	
Payments, except to sinking fund.....	27,973,040 73	73,547 72
		\$428,302 02
Earnings in 1878.....	\$26,579,085 90	
Payments, except to sinking fund.....	26,776,398 13	
Deduct deficit.....	\$197,312 23	197,312 23
		\$230,989 79
Six years' sinking fund, \$111,182.....		667,092 00
Deficit.....		\$436,102 21

The great revulsion of 1873, from which we are slowly emerging, has been called by thoughtful observers the "Railroad Panic," from the fact that railroad building was the last theatre of active speculation to which the remnants of the immense money accumulations of the war were transferred. Oil-wells, coal-mines, gold and silver mines, and village plots had been thoroughly exploited and as thoroughly exhausted. It would appear, from the figures here given, that a crisis was reached in the affairs of the New York Central in 1872, and subsequent events indicate that it was boldly met, in a manner characteristic of the presiding officer.

The exigencies of the case seem to have demanded immediate action, and this could be but in one direction. Hence the building of the additional tracks; the creation of the blanket mortgage of \$40,000,000 in January, 1873; and the increase of the funded debt from \$16,496,020 in 1872, to \$40,003,667.62 in 1875. The deficiency of \$197,312.23 in the operations of 1877, as shown above, super-added to the failure of the company to meet the sinking-fund quota of \$111,182, looks as if this supreme effort had not been crowned with the success anticipated. In the light of the foregoing facts, the extraordinary letter of the President, published this summer, in which he states that "the New York roads have put New York on an equality" (in the matter of freight rates) "with the most fa-

vored rival" (city), "her merchants must do the rest," intimating that he feels bound to see that other cities shall not suffer through the commercial supremacy of New York, is apparently susceptible of but one construction. It seems to utter the sentiments of a man who, having exhausted every business appliance, at last stands at bay, against friend and foe.

During the last five years it may be said that the country has been in a state of bankruptcy. No class, no interest, has been exempt. From the humble depositor in the Dime Savings Institution to the millionaire promoters of railway undertakings that should grasp the continent with a span, all have alike bowed to the inevitable. Some of the soundest banks have reduced their capitals largely—capital, too, which represented solid money. Time will show whether the company under consideration is superior to all financial and commercial laws.

The preceding statements of earnings and payments are derived from the published reports of the company, which are sworn to, as required by law, and should therefore be truthful. One of them for the year ending September 30, 1870, is here presented for the thoughtful consideration of the reader.

EARNINGS AND CASH RECEIPTS AND PAYMENTS.

RECEIPTS.

From passengers.	\$6,738,592 01
From freight.	14,489,216 52
Rents, interest, dividends on stocks held in other railroad companies, use of engines and cars, work done at shops, telegraph, mail service, and miscellaneous items.	1,135,511 14
	<hr/>
	\$22,363,319 67
	<hr/>

PAYMENTS OTHER THAN FOR CONSTRUCTION.

For transportation expenses.	\$14,068,079 31
For interest.	1,093,840 80
For dividends paid and balance on hand for dividends, October 15, 1870, at the rate of eight per cent.	6,861,241 29
For United States tax on earnings.	168,975 89
For rents.	60,000 00
For sinking fund.	111,182 38
	<hr/>
	\$22,363,319 67

The officers swear that in that year the company earned precisely enough money to pay certain fixed charges—no more, and no less. If it be true that the receipts in that year from passengers was \$6,738,592.01, and that the odd cent was the amount needed to

make up a sufficient sum to meet exactly the fixed charges of the road for the year, then it may be conceded that the days of miracles and of supernatural intervention have not departed ! But if there is some mistake about it, then the legal maxim, "*Falsus in uno, falsus in omnibus*," must be commended to the reflections of those interested.

To speak more seriously, can any sane business man believe such a report ? And yet it is duly and formally sworn to, accepted and presented to the Legislature by the State Engineer and Surveyor, and printed and distributed in the bound volume of annual reports.

But there be sins of omission as well as sins of commission, and, mindful of this pregnant fact, it is here asked if the provisions of subdivision 101, section 31, chapter 140, of the act passed April 2, 1850, entitled "An act to authorize the formation of railroad corporations, and to regulate the same," have ever been complied with by the New York Central. The inquiry is important, because the act is known as the general railroad law, and, by the subdivision here indicated, the company is required to report annually the "payments to surplus fund, and total amount of said fund." The object of this inquiry will be understood when it is explained that, in the yearly statement furnished by the company to Poor's "Railroad Manual," there appear the following language and figures :

FINANCIAL STATEMENT, SEPTEMBER 30, 1877.

Construction.....	\$75,033,786 52	Capital stock.....	\$89,232,900 00
Equipment.....	17,868,949 26	" " certificates	195,400 00
Engineering, etc.....	2,999,473 27	Funded debt.....	39,801,233 33
Branches, etc.....	3,230,199 66	Bonds and mortgages }	534,212 22
Balance, reserved }	30,631,336 84	and real estate..... }	
fund, etc..... }			
	<hr/>		<hr/>
	\$129,763,745 55		\$129,763,745 55

The wording of the last item in the left-hand column is ingenious by hardly ingenuous. By the term "balance, reserved fund, etc.," there is evidently an implication that a reserve or surplus does exist, but how much of the large amount of \$30,631,336.84 is of that character, is left entirely to the imagination of the reader. To assist the latter in his dilemma, it is suggested that the right-hand column contains simply an account of the debts due by the company, while the left shows the means at its disposal wherewith to pay them. If we suppose that each of the five items in the left-hand column is an asset equivalent to cash, and could be instantly converted into

money, it will be seen that, collectively, they would produce an amount precisely sufficient to liquidate the debts, so that he must have indeed a lively imagination who can discover any reserved fund in the premises. If, now, we turn to page 308, Table II., subdivision 101 of the printed volume of the State Engineer and Surveyor's Reports to the Legislature for 1877, we shall find, in the column entitled "Amount carried to surplus fund," a conspicuous blank space opposite the name of the New York Central and Hudson River Company.

It will not be denied that a case of this kind furnishes grave reasons for dissatisfaction. The question is, What is the remedy, and can it be effectually applied? It is obvious that the irregularities complained of are the fruits of imperfect legislation, and that consequently the remedy lies in a revision of the railroad laws. Not only do the present laws fail to call for such information as will demonstrate the financial condition of a company at a given period, but the penalties provided for non-compliance are so pitifully inadequate as to almost constitute a premium for disobedience. For instance, section 32 of the general act of 1850 reads as follows: "Any such corporation which shall neglect to make the report as is provided in the preceding section shall be liable to a penalty of two hundred and fifty dollars, to be sued for in the name of the people, for their use." As if the amount of fine were not small enough, it is provided that if any person expend time and money to bring a delinquent company to book, the money recovered may not reimburse him, but shall go for the use of the people. Section 3, chapter 906, laws of 1867, amends the preceding by imposing an additional fine of "twenty-five dollars for each day after the first day of December on which they shall neglect to file said report;" but this emendation is but slightly less ridiculous than the original provision. Indeed, it may be doubted if anything can be found in the entire railroad code to conflict with the supposition that it was framed directly in the interest of the roads, and under the inspiration of their agents. A defect in the law is the omission to prescribe the form of oath by which the correctness of the report is attested. Section 31 of the law of 1850 provides that the annual report shall be verified by the oaths of the Treasurer or President, and acting Superintendent of operations, neither of which officers can be supposed to be personally acquainted with the contents of the books or the methods of entries. They, accordingly, swear that they "have caused the foregoing statements to be prepared

by the proper officers and agents of the company from the books and records, and have examined them as far as practicable, and believe them to be correct." Practically, this oath amounts to nothing. Were a proper form prepared, to be signed by the chief book-keeper, auditor, and secretary, besides the officers already named, a long step would be taken toward the attainment of correctness.

The same section contains 105 subdivisions specifying the particular information to be set forth in the report. As touching the receipts of the company the following particulars are demanded :

Subdivision 95. Receipts during the year from freight.

" 96. From passengers.

" 97. From other sources, specifying what, in detail.

It will occur to any thinking person that if a railroad company pay eight per cent. dividends during a period of general bankruptcy, it is but natural that the stockholders should desire to know that the earnings from which the dividends are paid are legitimate. Now mark what the company under consideration reports for the last six years, as a compliance with the requirements of the law:

FROM REPORT OF SEPTEMBER 30, 1872.

RECEIPTS.

From passengers.....		\$6,662,006 82
From freight.....		16,259,646 79
Car service.....	\$882,078 54	
Rents.....	217,807 99	
Mail service.....	192,870 00	
Telegraph.....	5,964 89	
Interest.....	58,274 70	
Miscellaneous.....	1,302,026 14	
		<hr/>
		2,659,022 26
		<hr/>
		\$25,580,675 87

FROM REPORT OF SEPTEMBER 30, 1873.

RECEIPTS.

From passengers.....		\$6,999,456 01
From freight.....		19,616,017 90
Car service.....	\$1,104,527 23	
Rents.....	235,940 54	
Mail service.....	179,172 55	
Telegraph.....	7,948 55	
Interest.....	154,888 81	
Miscellaneous.....	828,899 58	
		<hr/>
		2,511,377 26
		<hr/>
		\$29,126,851 17

MYSTERIES OF AMERICAN RAILWAY ACCOUNTING. 145

FROM REPORT OF SEPTEMBER 30, 1874.

RECEIPTS.

From passengers.....		\$7,497,356 54
From freight.....		20,348,725 23
Car service.....	\$1,292,655 67	
Rents.....	679,386 12	
Mail service.....	350,961 25	
Telegraph.....	7,395 76	
Interest.....	230,551 38	
Use of road.....	274,904 36	
Miscellaneous.....	968,450 41	
		<hr/>
		3,804,304 95
		<hr/>
		\$31,650,386 72

FROM REPORT OF SEPTEMBER 30, 1875.

RECEIPTS.

From passengers.....		\$7,276,847 54
From freight.....		17,899,701 50
Car service.....	\$1,078,331 30	
Rents.....	730,636 87	
Mail service.....	325,319 00	
Telegraph.....	5,215 50	
Interest.....	263,869 27	
Use of road.....	273,964 74	
Miscellaneous.....	1,173,332 31	
		<hr/>
		3,850,668 99
		<hr/>
		\$29,027,218 03

FROM REPORT OF SEPTEMBER 30, 1876.

RECEIPTS.

From passengers.....		\$6,762,966 88
From freight.....		17,593,264 78
Car service.....	\$973,293 01	
Rents.....	828,615 16	
Mail service.....	446,537 00	
Telegraph.....	4,434 62	
Interest.....	337,801 33	
Use of road.....	261,092 77	
Miscellaneous.....	838,582 90	
		<hr/>
		3,690,356 79
		<hr/>
		\$28,046,588 45

FROM REPORT OF SEPTEMBER 30, 1877.

RECEIPTS.

From passengers.....		\$6,576,816 33
From freight.....		16,424,316 67
Car service.....	\$1,057,113 74	
Rents.....	1,055,855 72	
Mail service.....	326,420 52	
Telegraph.....	4,417 89	
Interest.....	355,281 24	
Use of road.....	236,008 31	
Miscellaneous.....	542,855 48	
		<hr/>
		3,577,952 90
		<hr/>
		\$26,579,085 90

The preceding statements contain, in detail, the receipts of money from all the regular and ordinary sources that the company can be supposed to have at command, and in addition thereto :

Miscellaneous, 1872.....	\$1,302,026 14
“ 1873.....	828,899 58
“ 1874.....	968,450 41
“ 1875.....	1,173,332 31
“ 1876.....	838,582 90
“ 1877.....	542,855 48
	<hr/>
Total miscellaneous.....	\$5,654,146 82

The dividends paid in these years were as follows :

Dividends, 1872.....	\$7,244,831 78
“ 1873.....	7,136,790 08
“ 1874.....	7,136,884 60
“ 1875.....	7,136,679 97
“ 1876.....	7,139,528 00
“ 1877.....	7,140,659 48
	<hr/>
Total dividends.....	\$42,935,373 91

So that, when the stockholder puts his dividend check in his pocket, he has the satisfaction of knowing that more than thirteen per cent. of it consists of a miscellaneous and mysterious receipt which the company declines to “specify in detail.” When the redoubtable Mr. Punch, of famous London town, characterized as the “Great Unaccountable,” an alderman who was suspected of absorbing city moneys, but who firmly declined giving an account of his stewardship, he probably did not foresee that he was giving currency to a term that might become a classic among his “kin beyond sea.”

It must not, however, be imagined that the New York Central monopolizes the distinction of contemning the law, and putting forth statements based, apparently, on improper book-keeping. An astounding chapter might be written concerning entries to be found in the books of another railway corporation, that has recently attracted a large share of public attention.

The law of this country, very wisely, recognizes no class or family as superior to all others in the management of corporations, or as free from the dangers of ambition, error, and speculation. With rare exceptions, either in this country or in England, have directors been found, no matter how important their titles or their families, who could or would safely and honestly administer the business of great corporations, unchecked and uncontrolled, by complete and absolute publicity both in general and in detail. Absolute knowledge and unlimited publicity can alone prevent such disasters as have recently, in England, been so great as to paralyze private credit and to beggar whole classes of people, who trusted everything to the respectable names of those controlling their property. Once given all the facts, the press will soon discover the weak spots in the balance-sheet, the errors of administration, or the frauds of managers. Figures cannot lie. But, that this truism may be made effective, all the figures and all the facts must be given ; and to this end, our laws touching the form and substance of such reports as are proper to be made require instant and thorough revision.

AN ACCOUNTANT.